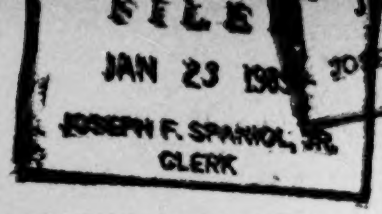

No. 88-1020

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

W. SCHLAFHORST & CO.,
AMERICAN SCHLAFHORST COMPANY
and GREENWOOD MILLS, INC.,
Petitioners,

v.

SCHUBERT & SALZER
MASCHINENFABRIK AKTIENGESELLSCHAFT,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Julian W. Dority
(Counsel of Record)

James M. Bagarazzi
Counsel for Respondent
DORITY & MANNING, PA
700 East North Street, Suite 15
Greenville, South Carolina 29601
(803) 271-1592

PRESS OF BYRON S. ADAMS, WASHINGTON, D.C. (202) 347-8203

QUESTIONS PRESENTED

The Petition manifests its weakness when Petitioner Schlafhorst strays from Supreme Court Rules 15.1(a) and 21.1(a) by being argumentative and/or inaccurate in the following instances. First, Schlafhorst did not win a jury verdict on a factual issue. Second, the agreement was a joint research and development (R&D) agreement, not a "secret patent pooling agreement." Third, there was a stipulation consenting to a bench trial entered into the record and embodied in the Judge's Order. Fourth, not only did Schlafhorst never object "explicitly" or otherwise to the Judge's numerous statements that the jury would be "advisory only" on the § 135(c) defense until days after the jury was dismissed, Schlafhorst repeatedly conveyed that it was not relying on Respondent Schubert's jury demand as to this defense. Fifth, the Judge's statements concerning the advisory jury were not "equivocal," and Schlafhorst understood that the 135(c) defense would be tried non-jury. Sixth, Petitioner quotes Schubert's counsel out of context: If by Schlafhorst's references to "friendly competitors," it intends this Court to infer that competitors must be unfriendly, uncivil, or compete unfairly to avoid the stigma of antitrust implications, such references are misleading.

Schubert would rephrase the questions presented by Schlafhorst as follows:

1. Did Schlafhorst's repeated urging of the judge to decide the 135(c) issue, verbal and actual disavowal of Schubert's jury demand, and verbal and actual consent to the judge's repeated statements that he was submitting an advisory question on the 135(c) defense

and would decide it himself, amount to waiver of a jury verdict on the 135(c) defense?

2. Is the Federal Circuit holding that Schlafhorst presented it insufficient evidence to disturb the trial court's 135(c) determination correct when the undisputed evidence shows an agreement which gives the parties a right to use the other's technology but is made neither in connection with nor in contemplation of the termination of an interference nor is causally related to termination of an interference?

PARTIES

Rieter Holding AG, Winterthur, Switzerland, purchased a controlling stock interest in Respondent Schubert & Salzer Maschinenfabrik Aktiengesellschaft in 1987. With this exception, Respondent has no parent company, subsidiaries (except wholly owned subsidiaries) or publicly held affiliates.

EXPLANATORY NOTES

Names-Abbreviations Used:

The West German company Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH is referred to herein as "Suessen."

The related British companies Stone-Platt Industries, Limited, Platt Saco Lowell, Limited, and TMM (Research) Ltd. are referred to herein, collectively, as "Platt."

The Swiss company Maschinenfabrik Rieter Aktiengesellschaft is referred to herein as "Rieter."

Annotations to the Record refer to the Federal Circuit's Joint Appendix page number. For example, page 2030 of the Joint Appendix used in the appeal to the Federal Circuit is designated JA 2030.

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STATEMENT OF THE CASE

Schubert presents this statement to correct inaccuracies and omissions in the statement presented by Schlafhorst.

Schlafhorst's defense of this action for infringement of Schubert's '312 patent on automatic rotor cleaning, including payment of the damages, is co-financed by a West German company known as Suessen. Confidential business agreements are common practice. Schlafhorst and Suessen have secret agreements cross-licensing U.S. patents and one funding litigation against Schubert.[1]

In the 1960's, a Czech textile machinery manufacturer led in the development of a commercial open-end spinning machine. On May 18, 1965, three other manufacturers, Schubert (German), Rieter (Swiss), and Platt (British), began a ten-year joint R&D Agreement to develop an open-end spinning machine to compete against the Czech's.[2] Max Huttner, then the head of Rieter's Patent Department, negotiated and signed the agreement for Rieter. Rolf Canzler participated as head of Schubert's Patent Department.[3]

To overtake the Czech's lead, the three newcomers combined their knowledge while developing their own machines. They exchanged information and licenses to use each other's patents and inventions.[4] No partner had a right to sublicense or share in royalties or damage awards of another partner's patent developed under the agreement.[5] Only licenses for patents covering commonly de-

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[1] As to secrecy, contrast Schubert's R&D Agreement, which appears in Schlafhorst's Appendix to the Petition, to the Schlafhorst/Suessen Agreement which Schlafhorst submitted to the Federal Circuit in a Confidential Appendix.

[2] JA 10 [Finding No. 19].

[3] JA 925.

[4] JA 10 [Finding No. 20].

[5] JA 702-03.

veloped technology needed the consent of all three partners.[6] The agreement does not mention interferences.[7] The technical people exchanged research results, and the patent agents discussed the state of the art two or three times a year.[8]

Schubert filed the '312 patent application in the U.S. Patent Office (PTO) before Rieter filed an automatic rotor cleaning application. Both applications were pending before Patent Examiner Watkins, who allowed Schubert's application. Schubert knew of Rieter's application[9] by the time of Huttner's February 1968 memo[10] to the partners acknowledging the importance of Schubert's invention.[11] After Schubert paid the issue fee in October 1968, Watkins decided that some of Schubert's claims interfered with a Reiter claim. He directed Schubert and Rieter to copy the other's claims and informed them that failure to copy would constitute a disclaimer of the subject matter, and copying would result in an interference under § 102(g) to determine which application had priority. After Rieter and Schubert copied the suggested claims, and Schubert presented a claim of even broader scope than those suggested by Watkins, the '857 Interference was declared on May 29, 1969. It was the only one the partners ever had,[12] but did not involve all of the claims in the parties' applications.[13]

Huttner had previously supervised a U.S. interference and had studied U.S. Patent Law at Columbia University

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[6] Joint R&D Agreement clause 7(b).

[7] JA 11 [Finding No. 23].

[8] JA 882-83.

[9] JA 892.

[10] JA 2668-79.

[11] JA 889-91.

[12] JA 932.

[13] *E.g.*, JA 2778.

under Giles S. Rich.[14] Since the PTO files established that Schubert's German filing preceded Rieter's Austrian filing,[15] he concluded that Schubert would win the interference pursuant to 35 U.S.C. § 102(g).[16] He knew an interference was costly,[17] and unwise to settle by agreement.[18] This disposed him to unilaterally terminate the interference.[19] Shortly after the declaration of interference, he telephoned Canzler as a courtesy to inform him of his decision.[20] Schubert informed its U.S. attorney, who on July 25, 1969, requested the PTO to extend the time for filing its preliminary statement in view of Rieter's announced termination.[21] An error in form defeated Rieter's initial termination attempt. Around November 24, 1969,[22] Rieter mailed the corrected form to its U.S. attorneys, who sent it to the PTO on December 3, 1969.

Meanwhile, each partner was developing the capability of introducing its own distinctly designed open-end spinning machine.[23] Beginning in August of 1969, the partners began to negotiate a one-page supplement to the Joint R&D Agreement to further the intention of each partner

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[14] JA 909, 930 (Now Judge Rich of the Federal Circuit).

[15] JA 915; Absent use in the United States, the earliest date of invention is the date of the priority application filed in another county. 35 U.S.C. §§ 102(g), 119.

[16] JA 924; JA 11 [Finding No. 31]; This is the same conclusion Schlafhorst reached before trial when its § 102(g) defense based on Rieter's application was dropped. *See* Pretrial Court Exhibit No. 1 (JA 3297a).

[17] JA 930.

[18] JA 932-33.

[19] JA 930.

[20] JA 924.

[21] JA 2779.

[22] JA 913.

[23] JA-904.

to make its own individual machine.[24] It continued the free use of each other's technical information for the original term to help catch the Czech's, who in 1967 introduced the first commercial open-end spinning machine.[25] The last partner signed the Supplement on December 2, 1969.[26]

When the PTO terminated the interference on February 5, 1970,[27] Rieter lost valuable rights to the interfering subject matter, since neither royalties nor infringement damages were shared under the Joint R&D Agreement or Supplement.[28]

In the late 1970's, Schubert, Platt and Rieter sued Suessen and others for infringing one of their jointly developed patents. Suessen filed an antitrust counterclaim based in part on the Joint R&D Agreement. This and other disputes were settled worldwide in June 1982 by several patent cross-licensing agreements. The Federal District Court in Rockford, Illinois, approved the so-called Rockford settlement. Schubert proposed including cross-licenses for each parties' automation patents, including the patent in suit, in the Rockford settlement. However, Schlafhorst and Suessen, under Mr. Stahlecker's direction, refused. The R&D Agreement formally ended in November 1982.

In 1983, Suessen sued Schubert for infringing two automation patents excluded from the Rockford settlement. Schlafhorst co-financed Suessen's suit, which won a judgment of liability, and this Court denied certiorari.[29]

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[24] JA 11 [Finding No. 30].

[25] JA 465.

[26] JA 11 [Finding No. 22].

[27] JA 2774-94, *2792*.

[28] JA 21.

[29] *Schubert & Salzer Maschinenfabrik Aktiengesellschaft v. Spindelfabrik Suessen-Schurr*, ___ U.S. ___, 108 S.Ct. 1022 (1988).

When the present action began in 1985, Schlafhorst asserted numerous defenses, including invalidity under 35 U.S.C. § 102(g) and unenforceability under 35 U.S.C. § 135(c), which requires filing agreements between interference parties in the PTO when such agreements are "made in connection with or in contemplation of the termination of the interference." After Schlafhorst unsuccessfully moved for summary judgment based on its 135(c) defense,[30] the parties agreed to try the case before a Magistrate empowered to enter the final judgment of the district court. Before trial, Schlafhorst dropped its § 102(g) defense which alleged that Rieter invented before Schubert, and filed a second losing summary judgment motion on the 135(c) defense.[31]

Having recently retired after six years as the Chairman of a Board of Appeal of the European Patent Office,[32] Huttner testified in a deposition taken by Schlafhorst in Munich, West Germany on March 30, 1987, that *neither* the Joint R&D Agreement *nor* its Supplement was made in connection with or in contemplation of the termination of the interference.[33] He testified that Rieter's royalty-free right to practice the patent in suit was ***not*** the reason Rieter terminated the interference,[34] and that Rieter's termination was ***not*** dependent on the signing of the Supplement.[35]

Huttner never appeared personally at the trial before the Court and the jury. His undisputed testimony was read into the record from his deposition, and Canzler corroborated it. The Judge believed that the 135(c) issue should

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[30] JA 67.

[31] JA 738.

[32] JA 875-76.

[33] JA 910-11, 915, 918-19.

[34] JA 906.

[35] JA 911.

not go to the jury even in an advisory capacity.[36] *At Schlafhorst's urging*, he tried to convince Schubert that he should decide it, but initially Schubert resisted.

Twice early in the trial[37] and again after Schubert rested,[38] the Judge stated in open court that he would decide the 135(c) defense. On the latter occasion, he said that he would send the 135(c) defense to the jury **"advisory only."**[39] On the eve of instructing the jury, the Judge again announced that he would send the 135(c) defense to the jury **"advisory"** and that he would "decide afterwards" if he had to.[40] Schubert said **"All right."**[41] Schlafhorst made no objection at any of these instances,[42] but rather encouraged the Judge to pursue this procedure,[43] clearly recognizing that the 135(c) defense was to be decided **"nonjury."**[44]

The parties' initial disagreement on the burden of proof for deciding the 135(c) defense[45] ended when Schubert agreed to Schlafhorst's proposal of the "preponderance of the evidence" standard.[46] The parties never agreed on a jury instruction for the 135(c) defense, and neither party's proposed instruction was used.[47] Since the question was

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[36] JA 730.

[37] JA 730; 738.

[38] JA 1517.

[39] JA 1517 (emphasis added).

[40] JA 1950 (emphasis added).

[41] JA 1517 (emphasis added).

[42] JA 738; 1517; 1950.

[43] JA 730.

[44] JA 1951 (emphasis added).

[45] JA 1950.

[46] JA 1969.

[47] Compare JA 353-56; 237-40 with JA 2047-49, 2079-80.

advisory, neither party objected to the instruction or verdict form.[48]

The Judge put the jurors at ease by kidding them that they needed "the wisdom of Solomon" in applying § 135(c).[49] Explaining the verdict form, he assured them that if they were stuck on 135(c) they could ask for further instructions.[50] After submitting the 135(c) advisory question to the jury, the Judge expressed second thoughts about bothering to submit it. However, he hoped that an advisory verdict would show the Federal Circuit the dilemma of instructing a jury on the 135(c) defense.[51]

On June 26, 1987, the jury returned its verdict in favor of Schubert and answered the advisory question on the 135(c) defense. Before polling the jury, the Judge twice reminded the parties, without contradiction or objection by Schlafhorst, that the verdict was only advisory as to the 135(c) defense.[52] Schlafhorst moved entry of the advisory verdict. The Judge refused and again reminded Schlafhorst that, **"We had understanding at the beginning it was advisory."**[53] Again Schlafhorst did not deny it. The Judge indicated that he soon would decide the estoppel and 135(c) defenses and would accept further briefing or additional information from the parties.[54] Before adjourning, he asked whether the parties wanted to put anything else on the record, and Schlafhorst declined.[55] In a memo filed on July

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[48] JA 2053-74.

[49] JA 2047.

[50] JA 2079-80.

[51] JA 2064.

[52] JA 2136, 2137.

[53] JA 2137 (emphasis added).

[54] JA 2138-39.

[55] JA 2139.

2, 1987, Schlafhorst *for the first time* denied that it had agreed to the advisory jury.[56]

On July 8, 1987, the Judge filed a 17-page Order containing Rule 52 Factual Findings and Conclusions of Law on the equitable estoppel and 135(c) defenses, including a finding that the parties agreed to the advisory verdict procedure.[57] He also ruled that because the facts were undisputed, the § 135(c) issue was a legal one only and not one for the jury. He entered judgment for Schubert for $6.3 million. Neither party asked for a new trial or JNOV.

On appeal, Schlafhorst denied it agreed to the advisory jury. The Court of Appeals responded at the outset of a five-page unpublished opinion:

> Here, Schlafhorst consented to trial by the magistrate on the section 135(c) issue. The magistrate repeatedly articulated his intention that he independently was going to decide the section 135(c) issue and that the section 135(c) issue was being sent to the jury in an advisory capacity only. Not only did Schlafhorst fail to object at trial to the magistrate's proposed treatment of the issue but when questioned by the magistrate, Schlafhorst, in open court, consistently maintained the position that the section 135(c) issue was a legal issue not appropriate for resolution by a jury.

SUMMARY OF ARGUMENT

Whether the parties waived jury trial of the 135(c) defense and agreed to let the judge decide with an advisory

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[56] Memorandum in Support of Defendants' Motion for Entry of Judgment of Patent Unenforceability Based on the Verdict of the Jury.

[57] JA 9, 10 [Finding No. 13].

jury, turns on the facts. There are no conflicts among the circuits on the law, only different outcomes based on different facts. Here, the lower courts have merely applied well settled legal principles of jury waiver and advisory jury to the ample evidence of a stipulation of waiver.

The Federal Circuit's holding that Schlafhorst failed to present sufficient evidence to disturb the trial court's determination of the 135(c) defense is not worthy of review by this Court. The § 135(c) defense arises infrequently and is not of general interest. Patent interferences rarely occur in the federal case load, and the 135(c) defense is rarer still. Six years of exclusive Federal Circuit jurisdiction over patent cases has resulted in but one reported opinion on § 135(c),[58] and it is consistent with the prior case law, which remains undisturbed by the present unpublished opinion. The present case is the *only* application of this one opinion in the four plus years since it was rendered.

ARGUMENT

I. The Waiver Issue Turns on The Facts and Is Inappropriate for Review by This Court

A. The Waiver Issue Is Wholly Fact-Specific

This case presents a fact issue on waiver,[59] and the facts involve more than Schlafhorst's silence. There are Schlafhorst's words and deeds before trial and throughout the two weeks of trial. The question is whether all the facts amount to waiver? Answering that question for this case will not make an important contribution to federal procedural law because different facts will distinguish this Court's decision.

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[58] *CTS Corp. v. Piher Int'l Corp.*, 727 F.2d 1550 (Fed. Cir.), *cert. denied*, 469 U.S. 871 (1984).

[59] E.g., *Stevens v. Mutual Protection Fire Ins. Co.*, 84 N.H. 275, 149 A. 498, 504 (1930) (Whether a party has waived its right to a jury trial presents a question of fact for the trial court).

The following trial excerpts and sampling of the case law reaching the same result on similar facts, establish the correctness of the lower court determinations. Typical of the factual nature of the waiver issue is *Stewart v. RCA Corp.*, 790 F.2d 624 (7th Cir. 1986): "The important point is that Stewart's counsel never told the district court that he objected to the turn the proceedings had taken." *Id.* at 630. "Explicit consent is preferable to implicit, yet although we trust the district judge will not often accept implicit consents, what happened here was enough to turn the proceeding into a partial bench trial." *Id.* at 631.

Statements by a party's counsel expressing lack of enthusiasm for a jury trial coupled with participation in a bench trial without objection are factors contributing to the adequacy of consent to withdrawal of a party's jury demand.[60] Similarly, consistent efforts of a party to defeat its opponent's jury demand demonstrate the party's nonreliance on that demand and so may contribute to a waiver of the party's right to object when the opponent eventually withdrew its demand.[61] All of these factors are present in the instant case. Rather than relying on Schubert's jury demand, Schlafhorst disavowed the jury by repeatedly urging the Trial Judge to decide the 135(c) defense.

At the start of the second trial day, Schlafhorst disdained the jury on the 135(c) defense:

> **THE COURT:** Let's go back to whether it's [135(c)] a jury issue or not, I don't think it is. Strictly a legal issue. There are no facts; there is a document. Whether it should have been filed or not is, ***I think, a legal issue***.

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[60] *Amburgey v. Cassady*, 507 F.2d 728, 730 (6th Cir. 1974).

[61] *Reid Bros. Logging Co. v. Ketchikan Pulp Co.*, 699 F.2d 1292, 1304 (9th Cir. 1983).

> **MR. PARK** [**Schlafhorst** Counsel]: ***I think it is too, Your Honor.***[62]

At the end of the second day of trial:

> **MR. PARK** [**Schlafhorst** Counsel]: Here again, I don't know whether Your Honor is going to have this [135(c) Issue] to be a jury question.
>
> **THE COURT:** I didn't want to make it [135(c) Issue] a jury question. I don't know, have y'all ever been in a case where you presented it to a jury?
>
> **MR. PARK:** ***No way***, I don't think the factual question under *Old Dominion*, Your Honor.
>
> * * *
>
> **MR. PARK:** ***Your Honor, there is no way to charge a jury on it*** [135(c) defense].[63]

Schlafhorst's words undercut its complaint that the Judge decided the 135(c) defense instead of the jury, and would be dismissed as "invited error,"[64] were it error at all.

Once the parties express their assent to the trial court's indicated intention to decide an issue triable to a jury as a matter of right, then the jury demand has been withdrawn or waived for that issue within the requirement of Rule 38(d).[65] Thus, such facts as participation in a bench trial with clear awareness of and without objecting to the judge's decision to find dispositive issues of fact without a jury may result in waiver of a jury demand in a proper

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[62] JA 559 (emphasis added).

[63] JA 729-30 (emphasis added).

[64] *Chemical Eng'g. v. Essef Indus., Inc.*, 795 F.2d 1565, 1572, 230 USPQ 385, 390 (Fed. Cir. 1986).

[65] *West v. Devitt*, 311 F.2d 787, 788 (8th Cir. 1963).

case.[66] Similarly, statements made by the court without objection from the parties when the case was submitted, are factors contributing to an oral stipulation to a non-jury trial.[67]

On the third trial day, the Trial Judge stated, "I think it [the 135(c) defense] is a matter that ***I'll have to decide*** after everything is in the record, all the testimony is in the record. Anything before the jury comes in?"[68] Schlafhorst failed to object to the Judge's opinion that he would decide the 135(c) defense at the close of testimony.

As the Judge denied Schlafhorst's motion for judgment as a matter of law on the 135(c) defense at the end of the sixth trial day, the following stipulation to an advisory jury occurred.

> **THE COURT:** All right, let me hear your next motion.
>
> **MR. PARK** [**Schlafhorst** Counsel]: Other is 135(c) and basically that is the record is in, and ***we think it shows as a matter of law***, we made arguments before, we just renew.
>
> **THE COURT:** If I can do it intelligently, I'm going submit that to the jury, if I can do it where I think they understand it, ***advisory only***. Will be the last part of the verdict. After they reach everything else, then they go back to 135, say yes or no.
>
> **MR. DORITY** [**Schubert** Counsel]: I think that is a jury question.

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[66] *United States v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 950 (4th Cir. 1985) (drug seizure forfeiture).

[67] *United States v. Missouri River Breaks Hunt Club*, 641 F.2d 689, 693 (9th Cir. 1981).

[68] JA 738 (emphasis added).

THE COURT: I'm not sure, I'll cover it both ways. I'll let the jury decide, ***then I'll decide also***.

MR. DORITY: ***All right***.

THE COURT: That way we won't have to retry this case. I mean if you got a case, I wish you'd share with me, because I sure haven't found one which says -

MR. PARK: Got the cream of the crop from us, Your Honor

MR. TURNER [**Schlafhorst** Counsel]: We filed reply on that point this morning also, which you may perhaps have not seen.

THE COURT: I have not seen, if you found a case.

MR. TURNER: I have rediscussed in another fashion some cases that are in there and also some evidence.

THE COURT: What was your conclusion?

MR. TURNER: Need I say, Your Honor?

THE COURT: Let's do it both ways just to make sure. That's the only safe way I know to do. One thing we don't want sent back. Don't think a man in this room wants to go through this again, or woman.

MR. DORITY: I think that's a reasonable-

THE COURT: All right, next motion.

MR. PARK: ***That's it, Your Honor***.[69]

On the eve of instructing the jury, the Judge repeated that he was sending 135(c) to the jury in an advisory capacity:

THE COURT: Here we are talking about, we don't know whether it should go to the jury; we don't know the burden of proof. I am going to

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[69] JA 1517-18 (emphases added).

> send it to the jury ***just to protect ourselves*** so we don't have to retry the case, and ***I'll decide afterwards, if I have to***. I may not have to. I hope they decide for me, let them decide. ***We'll send it to them advisory***, that way we're all protected.
>
> **MR. DORITY** [**Schubert** Counsel]: I would agree, if Mr. Parks would agree to it, that we don't disclose what burden, say it's just a violation.
>
> **THE COURT:** We can't do that, that wouldn't be fair to the jury. I got to tell them how to decide it one way or the other. That is the easiest way. I thought about that too. That wouldn't be fair.
>
> **MR. PART** [sic] [**Schlafhorst** Counsel]: In a ***nonjury***, how would - how would they decide?
>
> **THE COURT:** Pardon me?
>
> **MR. PARK:** ***Nonjury***, have you had a ***nonjury***, where they said what burden they used?[70]

Rather than voicing an objection, the three references to ***nonjury*** by Schlafhorst's counsel indicate that he knows the 135(c) defense will be decided ***nonjury***, and goes along with the procedure outlined by the Judge. Thus, Schlafhorst knew the verdict was to be advisory, yet proceeded without objection. Would any trial judge in the country have known that Schlafhorst felt it was being denied its constitutional right to a jury trial under these facts?

Had it been other than advisory, Schubert would have objected to the jury form, which gave no guidance other than mere recitation of § 135(c).[71] Since it did not affect the outcome, neither party so much as glanced at the

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[70] JA 1950-51 (emphasis added).

[71] *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707, 723 (Fed. Cir. 1984)(error to merely repeat statutory language unless its meaning and application to the facts are clear without explanation).

135(c) portion of the verdict form. Had it not been advisory, surely Schubert or Schlafhorst would have pointed out the form's erroneous reference to § 235(c) instead of § 135(c).

Since Schlafhorst never demanded a jury on the 135(c) defense, its right to one depends upon whether it relied on Schubert's demand. Schlafhorst disavowed any reliance on Schubert's demand by repeatedly urging that the defense be decided by the Judge. In effect, Schlafhorst consented in advance to Schubert's waiver.[72]

On page 16, the Petition erroneously suggests that the magistrate's reply reflects indecision about whether the verdict was advisory. To the contrary, the magistrate's reply indicates only that he had not made up his mind on the merits of the 135(c) defense. If he already had decided to rule for Schlafhorst on the merits of 135(c), he might have indicated this by entering the jury's verdict as his own, pending his Rule 52(a) findings and conclusions. But he had not decided yet, as is evident by his invitation to

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[72] *See Reid Brothers Logging Co. v. Ketchikan Pulp Co.*, 699 F.2d 1291, 1303-05 (9th Cir. 1983) (Party's persistent efforts to defeat another's jury demand demonstrated no reliance on that demand. That party therefore waived its right to rely on the protection of Rules 38(d) and 39(a)). *See also Rosen v. Dick*, 639 F.2d 82 (2d Cir. 1980) ("[c]onsent is only required to the extent that a particular party would have been entitled to rely on the demand." 639 F.2d at 92. "[I]f a litigant has already waived the jury trial right as to certain issues, he cannot be relieved of that waiver by withholding consent to the withdrawal of a jury demand." *Id.*); *Gonzalez v. Concourse Plaza Syndicates, Inc.*, 361 N.E.2d 1011 (N.Y. 1977) ("Certainly, when, as here, plaintiff has already expressed a preference for a non-jury trial, a statutory protection is unnecessary. In effect, by making an express request for a nonjury trial, plaintiff consented, in advance, to any withdrawal or waiver of a demand for a jury trial." 361 N.E.2d at 1012-13); *Lieberman v. Aetna Insurance Co.*, 57 Cal.Rptr. 453 (Cal. App. 1967) (The plaintiff's position prior to trial that a jury trial should not be had was "in effect a waiver of any right to trial by jury." *Id.* at 462).

the parties to submit further briefing and information, which both parties did.

The parties' directed verdict arguments primarily addressed the jury issues of validity, infringement, abuse of process, and damages. However, since counsel were addressing the judge on these points, they took the opportunity to argue the 135(c) defense. But Schlafhorst grasps at straws if it must use this display of overzealous advocacy as its proof that there was no agreement to an advisory jury. Moreover, Schubert never moved for JNOV because there was no jury verdict on 135(c).

Finally, on page 17 of the Petition, Schlafhorst tried to bolster its inferential argument that it did not consent to a non-jury trial by its unsupported assertion that the issue could not have been submitted advisory under Rule 39(c). Even if true, this fails to prove its point. However, the assertion itself is contrary to both common sense and the better reasoned authority. According to the weight of authority, an advisory jury can be used in jury-waived actions triable as a matter of right to a jury.[73] An advisory verdict is not binding on the trial court, which has the power to decide factual issues.[74] Even the disfavored use of an ad-

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[73] *(American) Lumbermens Mut. Cas. Co. v. Timms & Howard, Inc.*, 108 F.2d 497, 500 n.2 (2d Cir. 1939); *Computer Systems Eng'g., Inc. v. Qantel Corp.*, 571 F. Supp. 1365, 1372-73 (D. Mass. 1983), *aff'd*, 740 F.2d 59 (1st Cir. 1984) (excellent discussion of why an advisory jury is available in a case triable to a jury); *Henderson v. Harrah's Marina Hotel Casino*, 110 F.R.D. 66, 68 (E.D. Pa. 1986); 5 *Moore's Federal Practice* Para. 39.10[1] (concluding that the Second Circuit's approach in [*American*] *Lumbermens* allowing advisory juries in *all* cases is the better approach and that even if such use is not permitted, it is not reversible error because the ultimate decision rests with the trial judge); 9 Wright & Miller *Federal Practice and Procedure*, § 2335 at pp. 127-128 (concluding that an advisory jury should be available in cases triable by a jury).

[74] *Cox v. Babcock and Wilcox Co.*, 471 F.2d 13, 14 (4th Cir. 1972); Fed. R. Civ. P. 52(a) ("In all actions tried upon facts . . .with an

visory jury fails to warrant reversal of amply supported judicial findings.[75] Thus, an advisory jury's inability to affect the judge's fact finding power, renders it harmless.

Regardless of how this Court would resolve the above facts in this waiver issue, its decision would have no authoritative application to any other case.

B. There Is No Conflict Among the Circuits

Contrary to Petitioner's argument, the Circuit decisions fail to present a clash of legal principles, only different outcomes turning on different facts. The cases cited by Schlafhorst are distinguishable on their facts. For example, the *DeGioia v. United States Lines Co.*[76] opinion distinguishes itself on the facts: "[W]e need not decide whether on this record it would have been error for the trial judge to submit the case to the jury in an advisory capacity only, since that is not what occurred." 304 F.2d at 424 n.1.[77] In *Palmer v. United States*,[78] the party filed a jury demand, and the record before the appellate court showed no oral stipulation to withdraw this demand. Unlike *Palmer*, Schlafhorst made no demand and did much more than merely participate in a bench trial. In *Zidell Exploration, Inc. v. Conval Int'l, Ltd.*,[79] the party made a jury demand, and the judge and counsel had only a four sentence, equivocal exchange as to waiver of that demand as

advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon,. . . .").

[75] *Moss v. Lane Co.*, 471 F.2d 853, 855 (4th Cir. 1973); See also *The Advisory Jury* 5 Fed. Rules Serv. 837, 838 (Difficult to imagine any case in which unauthorized use of advisory jury would be reversible error).

[76] 304 F.2d 421 (2d Cir. 1962).

[77] Having overlooked a jury demand, the judge stated he was using an advisory jury. Realizing his error, he entered the jury's verdict.

[78] 652 F.2d 893 (9th Cir. 1981).

[79] 719 F.2d 1465 (9th Cir. 1983).

to a single disputed fact determination, not an entire defense. Unlike *Zidell*, the numerous statements of Schlafhorst's counsel, including triple repetition of "non-jury," fail to qualify as counsel's "equivocal remarks." In *Casperone v. Landmark Oil & Gas Corp.*,[80] the party failed to appear at pretrial where all other parties consented to a bench trial, failed to appear at the beginning of the trial, and failed to object to the trial until after it was over and he lost. In all of these cases, as in the present one, the outcome results from weighing and evaluating all of the particular acts and expressions of the parties and the trial judge. There is no legal principle over which the courts differ.

C. Reversal Sanctions Ambushing the Trial Judge

Reversing the Court of Appeals would allow Schlafhorst and others to ambush the trial court by playing deaf, dumb and blind. *Stewart v. RCA Corp.*, 790 F.2d 624, 630 (7th Cir. 1986)("[A] party ought not be able to try an issue without risk, reveling in his victory if he wins but holding in reserve if he loses an argument that the issue should not have been tried at all.").[81]

The Judge who observed the jury during eight consecutive trial days stated that he did not think the jury understood how to apply § 135(c) to the facts. The Judge used the 135(c) advisory question to show the Federal Circuit that it was unsuitable for jury resolution.[82] The jury's erroneous answer supports the Judge's perception. Schlafhorst seeks to turn this innocent exercise, to which

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[80] 819 F.2d 112 (5th Cir. 1987).

[81] *See also U.S. v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 951 (4th Cir. 1985)("To permit the appellants to lodge an early demand for a jury trial and then, in effect, 'ambush [the] trial judge' on appeal is patently unfair.").

[82] JA 2064.

it never objected, into a question of constitutional proportions.

Never once when the Judge stated either that he was going to decide the 135(c) defense[83] or that it was only going to the jury in an advisory capacity,[84] did Schlafhorst object in any way, shape, manner or form of expression. Its first objection occurred days after the jury had been dismissed. Litigants cannot expect to be heard on objections to the conduct of the trial raised for the first time on appeal when such objections could and should have been raised in the trial court.[85]

II. The Federal Circuit's Holding–That There Was Insufficient Evidence to Disturb the Trial Court's 135(c) Determination Is Unworthy of Review

Rather than turning on an important legal principle worthy of review by this Court, the 135(c) defense turned on Schlafhorst's failure to present adequate evidence of causation to warrant reversal by the Federal Circuit. Since causation is a determination requiring review of all of the particular facts and circumstances, review of this particular determination of causation decides no legal principle of widespread application. This is especially true here because the 135(c) defense rarely appears in the case load of the lower courts.

Schlafhorst, which had the burden of proof, presented inadequate grounds for determining that the unfiled agreements bore a causal relationship to the interference termination. On page 17 of the Petition, Schlafhorst asserts: "It [Section 135(c) issue] is an issue of fact and was so treated by both the Magistrate and the Federal Circuit."

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[83] JA 738; 1517; 1950.

[84] JA 1517; 1950; 2136; 2137.

[85] *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707, 714 (Fed. Cir. 1984).

However, rather than resolutions of conflicting evidence, the factual statements (Nos. 11, 12 and 14-33) on the merits of the 135(c) defense in the judge's order are summaries of the undisputed evidence.[86] This evidence admits of only one conclusion capable of withstanding a directed verdict. That conclusion is that the agreements had "*no causal relationship* to the interference proceedings."[87] Thus, the Federal Circuit held that, "[b]ecause Schlafhorst has not given us grounds to disturb this [135(c)] determination by the magistrate, we must affirm his decision on this issue." There is no reason why that finding requires review by this Court.

Schlafhorst's innuendos and attorney arguments fail to rise even to the level of circumstantial evidence,[88] and are refuted by the timing and content of the agreements and the undisputed testimony of the men who negotiated them and supervised the parties during the interference.

One such innuendo implies that the agreements caused Rieter to give up too easily. However, Schlafhorst gave up its defense of the same 102(g) issue at pretrial conference.[89] Rieter merely voluntarily ended the same 102(g) contest (interference) it could not win since it filed its application after Schubert and lacked evidence that Schubert's employees were not the first inventors.

Schlafhorst attempts to tease a certworthy issue from the Federal Circuit's holding by asserting that it involves a matter of important Congressional policy and that, because wrongly decided, it threatens that policy.

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[86] Schlafhorst concedes as much by stating on page 13 of the Petition: "None of the facts relating to the secret pooling agreement is in dispute."

[87] JA 11 [Finding Nos. 29, 30] (emphasis added).

[88] *See Weinar v. Rollform, Inc.*, 744 F.2d 797, 806 (Fed. Cir. 1984) (argument of counsel on appeal cannot substitute for evidence).

[89] *See* Pretrial Hearing Court Exhibit No. 1 (JA 3297a).

Schlafhorst's position, however, has two serious flaws. First, Schlafhorst uses buzz words like "affecting" and "patent pool" to obscure the Congressional purpose and express wording of the statute. Second, Schlafhorst misapplies the existing case authority.

A. No Important Congressional Policy Is at Stake

Schlafhorst quotes from a Justice Department letter noting that the purpose of § 135(c) is to require the filing of settlement agreements to make it more difficult for patent owners to use an interference settlement agreement as a means of restricting competition or violating the antitrust laws. This purpose would not be served by requiring the filing of the Joint R&D Agreement and Supplement. First, they are not interference settlement agreements. Second, they are not the sort of agreement that prompted Congress to enact § 135(c). The partners did not share access to patents and other information to remove the incentive to contest U.S. patent interference proceedings, and Schlafhorst's innuendos to the contrary are unsupported by any evidence. Moreover, the agreements are pro-competitive. Shared access to one another's patents helped overcome the Czech's headstart and enable three more competitors to enter a market with high entry barriers and requiring substantial long-term investment. Schlafhorst itself has 80 percent of the U.S. market for this machinery.

The language of the statute unambiguously fails to apply to the present situation. It expressly limits the kinds of agreements which must be filed. It does *not* require filing all agreements between parties to an interference [*CTS*, 727 F.2d at 1556]. It does *not* require filing agreements that "affect" the incentive of the parties to contest the priority issues in the interference on their merits to a conclusion. It only requires filing those agreements "made in connection with or in contemplation of the termination of the interference."

Schlafhorst appears to contend that 135(c) mandates filing all cross-licensing agreements (which Schlafhorst tries to disparage with the name "patent pool") between parties to an interference. However, if Congress wanted § 135(c) to mandate filing such agreements, Congress would have said so in the statute or the legislative history. Rather than use "cross-license" or "patent pool," Congress used "made in connection with or in contemplation of the termination of the interference."

The '857 Interference refutes Schlafhorst's contention that a cross-license agreement "makes irrelevant the outcome of *any* interference between the [contracting parties]" involving the cross-licensed subject matter.[90] The right to use the interfering subject matter differs from the right to benefit from a third party's use of it. While Rieter has the right of use, it lost to Schubert the right to benefit from third party use such as damages awarded for Schlafhorst's use. Thus, the interference outcome was far from irrelevant to Schubert and Rieter.

In short, the Court of Appeals' unpublished opinion in this case does not threaten any Congressional policy.

B. The Facts Weave This Federal Circuit Decision Neatly into the 135(c) Case Law

The *CTS* decision affirmed a trial court's holding of no violation of § 135(c) based upon a finding of no causal connection between the agreements and termination of the interference. An examination of the *CTS* facts demonstrates what degree of causation may exist without triggering § 135(c). Two of the three separate agreements made by the *CTS* parties to settle all their pending controversies referred directly to the interference. The parties had discussed requesting Certiorari to seek review of interference issues. Settlement negotiations were ongoing

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[90] Petition p. 20 (emphasis added).

during all but the last phase of the interference, when the case settled.

The *CTS* facts present a far stronger basis for finding a "causal relationship" than the facts here. First, the contemporaneous factor of causality is nonexistent here. The Joint R&D Agreement was made in 1965, more than a year before either Schubert's or Rieter's invention existed and about five years before the interference termination. If the parties had intended the Supplement to play a role in ending the interference, then they would have waited for its demise before signing.[91] Supplement negotiations did not begin until after Huttner decided to terminate, and it was signed weeks after Rieter made its first attempt to terminate and months before the interference officially terminated. Furthermore, Huttner stated without contradiction that the execution of the Supplement was *not* dependent in any way on the interference termination.[92]

Second, the agreements here neither refer to an interference, nor make any provision for interference settlements. They pertain to the parties making their individual machines,[93] and involve a third party which is not needed to terminate the interference.[94] The Joint R&D Agreement's arbitration clause did not preclude participation in the interference. The only fair interpretation that can be given to the clause is that it pertains to disputes about the Joint R&D Agreement itself. The three parties from three nations merely chose to settle disputes about their international agreement according to the Deeds-of-Arrangement and Arbitration Statute of the International Chamber of Commerce in Paris.

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[91] JA 21.

[92] JA 911.

[93] JA 11 [Finding No. 22].

[94] JA 21.

The *CTS* opinion discusses what kinds of facts must be found to hold that an agreement must be filed:

> What we need to look for is evidence that Piher thought it was giving up something by way of dropping the interference in consideration for this settlement, and in addition, evidence that CTS believed it was receiving something in the form of terminating the interference as a result of this settlement.[95]

In the *Old Dominion Box* case,[96] the agreement changed the rights of the parties to the technology to compensate the loser of the interference.

Here by contrast, instead of an exchange of consideration, Rieter lost valuable royalty rights and gained nothing when it unilaterally terminated. Schubert's patent won exclusive control of the royalty rights for the interfering subject matter. Neither agreement compensated Rieter for losing these rights, on which Rieter put a substantial value.[97] The jury in effect valued the royalty rights at more than $13 million for Schlafhorst's infringement.[98] Rieter gets none of the jury's award. The only evidence on Rieter's reason for terminating was that it was convinced that it could not prevail over Schubert's earlier filing date.[99]

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[95] *CTS Corp. v. Piher Int'l. Corp.*, 219 USPQ 1180, 1182 (N.D. Ill. 1983), *aff'd*, 727 F.2d 1550 (Fed. Cir. 1984).

[96] *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550 (S.D.N.Y. 1967), *aff'd on other grounds*, 393 F.2d 321 (2d Cir. 1968).

[97] JA 889-91; Huttner regarded the Landwehrkamp et al invention of the patent in suit as one of the important inventions developed by a partner, as indicated by its listing in paragraph 5(e) of Huttner's February 1968 memo [JA 2678].

[98] Schubert was awarded a $6,300,000 royalty on about $144,000,000 in sales beginning with the date the suit was filed. Total sales exceeded $300,000,000, but marking deficiencies limited royalties to sales occurring after suit was filed.

[99] JA 915, 924 (Huttner deposition testimony).

Rieter's refusal to fund an unwinnable interference[100] resembles the situation in *United States v. FMC Corp*[101] where a party dropped pending oppositions to cut its losses after realizing it was certain to lose because of the first-to-file rule.

The *Box* agreement was made on the day one party wrote the other, "If you feel the interest of both parties will best be served by abandoning the Arneson application, we are authorized to drop the prosecution of the same."[102] Thus, while the *Box* agreement fails to mention the interference or the settlement, a contemporaneous letter mentioned both. Here, no settlement offer exists, much less one contemporaneous with either of the agreements. Even Huttner's courtesy telephone call to Canzler occurred after Rieter's unilateral decision to terminate and was strictly informational, not a settlement offer.

The *Box* rationale holds that an exclusive licensing agreement should have been filed because it gave the parties the *same* exclusive *rights* and thereby *eliminated* the incentive to continue the interference. It removed a potential competitor from the market and the need for that party to develop a new technology to compete with the interfering subject matter. Similarly, the court in *PPG Industries, Inc. v. Bausch & Lomb, Inc.*,[103] observes:

> The statute requires only the filing of agreements made in settlement of interferences or those which *totally* destroy the incentives of the parties to the interference to litigate in an adverse manner. The license agreement in question here did not terminate or otherwise decide the

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[100] JA 906.

[101] 215 USPQ 43, 53 (E.D. Pa. 1982), *rev'd on other grounds*, 717 F.2d 775 (3d Cir. 1983).

[102] *Old Dominion Box*, 273 F. Supp. at 561-62.

[103] 205 USPQ 914, 919 (W.D.N.Y. 1979)(emphasis added).

> interference, and Research Corporation, the only party to the license agreement who was also a party to the interference, retained the same strong incentives to litigate after the license agreement that it had before that agreement. Research Corporation's financial incentives to win the interference were greater after the license agreement than they had been before it.

Here, the valuable royalty rights Schubert won in the interference, are distinctly *different* from and *greater* than Rieter's rights under the agreements, which did not *eliminate* the incentive to pursue the interference. Moreover, they did not eliminate a competitor since Rieter today sells its own open-end spinning machine with automatic rotor cleaning. Similar to the incentive of Research Corporation, the Supplement increased the parties' incentive to win the interference, because they were working on separate machines which would be competing in the marketplace.

In the *Moog* case,[104] a party's own action of trying to file a supplemental agreement served as an admission that it was "made in connection with or in contemplation of the termination of the interference." Moreover, the *Moog* supplemental agreement modified the original agreement to change the rights of the parties to the invention.[105] Here by contrast, there is no evidence that Rieter agreed with Schubert to end the interference,[106] and the Supplement does not change the parties' rights to the patent in suit.

In the *Forbro* case,[107] the judge had concluded that all of the claims were invalid for obviousness before analyzing

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[104] *Moog, Inc. v. Pegasus Labs, Inc.*, 521 F.2d 501, 187 USPQ 279 (6th Cir. 1975).

[105] *Moog*, 521 F.2d at 505, 187 USPQ at 282.

[106] JA 11 [Finding No. 32].

[107] *Forbro Design Corp. v. Raytheon Co.*, 390 F. Supp. 794 (D. Mass. 1975), *aff'd*, 532 F.2d 758 (1st Cir. 1976).

the makeweight 135(c) defense. The *Forbro* parties admitted negotiations to settle the interference, both before and after making a cross-license agreement. They admitted that the agreement caused them not to pursue the interference as vigorously as they otherwise might have done. Thus, the evidence in *Forbro* was that the cross-license agreement *in fact* removed the adversary character of the interference. Unlike *Forbro*, the agreements here are not simultaneous with the interference's *de facto* termination, namely, Rieter's decision. There is no evidence to support Schlafhorst's innuendo that the agreements caused any lack of effort in pursuing the interference. To the contrary, Schubert added a claim to broaden the scope of the interference beyond the claims suggested by the Examiner.

Thus, the decision of the Court of Appeals is entirely consistent with the applicable precedent. As with the waiver issue, different results arise from different facts. There is no need for this Court to examine the question whether, on the particular facts of this case, the correct result was reached.

CONCLUSION

Since the petition fails to present any reason which would warrant review by this Court, it should be denied.

Respectfully submitted,

Julian W. Dority
Counsel of Record for Respondent

James M. Bagarazzi

DORITY & MANNING, PA
700 East North Street
Suite 15
Greenville, South Carolina 29601
(803) 271-1592